

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6801

BILL NUMBER: HB 1570

NOTE PREPARED: Feb 2, 2007

BILL AMENDED: Feb 1, 2007

SUBJECT: Funding for Department of Insurance.

FIRST AUTHOR: Rep. Fry

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: (Amended) *Insurance Education Scholarship*: This bill establishes the Insurance Education Scholarship Fund to provide annual scholarships to certain students. It requires (1) the State Student Assistance Commission (SSACI) to administer the scholarship fund; (2) the Commission for Higher Education to provide certain information concerning students studying insurance; and (3) each state educational institution to award scholarships and provide certain information. The bill annually appropriates money in the scholarship fund to SSACI.

Fee Increases: The bill deposits various insurance filing fees into the Department of Insurance Fund rather than the state General Fund. It increases the internal audit fee for domestic and foreign insurers and health maintenance organizations to \$1,000. It increases the internal audit fee of other entities from \$100 to \$250. It provides that each policy, rider, or endorsement filed with the state constitutes an individual filing for purposes of the \$35 product filing fee. It imposes a \$1,000 cap per filing per insurer for product filing fees. It provides that insurance producer and limited lines producer license renewal fees are due every two years rather than every four years. The bill provides for the deposit of fees paid to the commissioner by health maintenance organizations (HMOs) into the Insurance Fund.

The bill authorizes the commissioner to issue certificates suitable for framing to insurance producers. The bill removes the requirement that resident surplus lines producers file a bond with the commissioner.

Effective Date: July 1, 2007.

Explanation of State Expenditures: (Revised) *Insurance Education Scholarship*: The impact depends on the number of students studying insurance or business with an emphasis on insurance. SSACI's reported

average amount for 4-year public college tuition and fees for FY 2007 is \$5,473 and is projected to be about \$5,800 for FY 2008. For each 100 students who are provided a scholarship of \$5,800, the cost would be about \$580,000. SSACI could also have some increase in administrative expenses that would be paid from the Insurance Education Scholarship Fund. The source of revenue for the fund is fees collected for the purchase of framed certificates.

DOI. The bill authorizes the DOI commissioner to issue certificates suitable for framing to insurance producers. This provision could increase administrative expenses for the DOI by an indeterminable amount. It is assumed that the DOI will be able to cover expenses given its existing level of resources. The commissioner may impose and collect a reasonable fee for the certificate. Fees must be deposited into the Insurance Education Scholarship Fund.

Removing the requirement that resident surplus lines producers file a bond with the commissioner will reduce administrative expenses by a minimal amount.

Renewal Licenses: It is possible that the DOI will need to hire additional staff in FY 2010 to handle the shortened license renewal cycle. Any additional increase could be paid from additional revenues generated.

Explanation of State Revenues: Summary--

<i>FY 2008</i>	Increased Fee for Internal Audit and Product Filing Fee	Two-Year License Renewal	Transfer of Existing Filing Fees	Totals
State General Fund	-	(\$1.18 M)	(\$739,500)	(\$1.9 M)
DOI Fund	\$2.8 M	\$1.18 M	\$739,500	\$4.7 M
<i>FY 2009</i>				
State General Fund	-	(\$1.9 M)	(\$739,500)	(\$2.6 M)
DOI Fund	\$2.8 M	\$1.9 M	\$739,500	\$5.4 M
<i>FY 2010</i>				
State General Fund	-	(\$3.1 M)	(\$739,500)	(\$3.8 M)
DOI Fund	\$2.8 M	\$4.3 M	\$739,500	\$7.8 M
Total impact for the state General Fund is reduced revenue of \$8.3 M for the 3-year period. Total impact for the DOI Fund is increased revenue of \$17.9 M for the 3-year period.				

Increased Fee for Internal Audit and Product Filing Fee: New revenue for the DOI fund will consist of increased fees for internal audits, which should total a little over \$1 M, and new revenue generated by the \$35 product filing fee, which should total an estimated at \$1.8 M. These fees are currently deposited in the DOI Fund. They will continue to be deposited in this fund. The total increase in revenue to the DOI Fund from these increased fees is equal to \$2.8 M for each of FY2008, FY2009, and FY 2010 and thereafter.

Two-Year License Renewal: The bill provides that insurance producer and limited lines producer license

renewal fees are due every two years rather than every four years. The bill provides that the fees are deposited in the DOI Fund. Currently, renewal fees are deposited into the state General Fund. Revenue generated from new agent fees, which equals about \$1.7 M per year, would continue to be deposited in the state General Fund.

The impact of changing the renewal licenses from a 4-year to a 2-year is outlined below. These estimates are based on licensee information currently in the DOI database.

For FY 2008, the renewal license fees will generate an estimated \$1.18 M. This fee which is currently deposited in the state General Fund would be deposited in the DOI Fund under the bill. State General Fund revenue would be reduced by \$1.18 M.

For FY 2009, the renewal fees will generate an estimated \$1.9 M. This fee which is currently deposited in the state General Fund would be deposited in the DOI Fund under the bill. State General Fund revenue would be reduced by \$1.9 M.

For FY 2010, the renewal license fees will generate an estimated \$4.3 M to be deposited into the DOI Fund, of which, \$3.1 M would have otherwise been deposited in the state General Fund and \$1.2 M would be attributable to the change from a 4-year renewal requirement to a 2-year renewal.

For FY 2011, the renewal license fees will generate an estimated \$4.2 M to be deposited into the DOI Fund, of which, \$2.3 M would have otherwise been deposited in the state General Fund and \$1.9 M would be attributable to the change from a 4-year renewal requirement to a 2-year renewal.

	Resident Producer	Non-Resident Producer	Totals
FY 2008			
Agents (existing licenses that expire this fiscal year)	5,725	10,573	
Fee	<u>\$40</u>	<u>\$90</u>	
Renewal Revenue	\$229,000	\$951,570	\$1,180,570
FY 2009			
Agents (existing licenses that expire this fiscal year)	11,247	16,206	
Fee	<u>\$40</u>	<u>\$90</u>	
Renewal Revenue	\$449,880	\$1,458,540	\$1,908,420
FY 2010			
Agents up for 1 st 2-year renewal	17,775	26,586	
Agents up for 2 nd 2-year renewal	<u>5,725</u>	<u>10,573</u>	
Subtotal	23,500	37,159	
Fee	<u>\$40</u>	<u>\$90</u>	
Renewal Revenue	\$940,000	\$3,344,310	\$4,284,310
FY 2011			
Agents up for 1 st 2-year renewal	8,989	15,337	
Agent up for 2 nd 2-year renewal	11,247	16,206	
Agents who last renewed between Jan-Jun 2007	<u>3,448</u>	<u>4,931</u>	
Subtotal	23,684	36,474	
	<u>\$40</u>	<u>\$90</u>	
Renewal Revenue	\$947,360	\$3,282,660	\$4,230,020

Transfer of Fee Revenue from the State General Fund to the DOI Fund - Filing Fees: The bill deposits fees for certificates, articles of incorporation, utilization reviews, medical claims, company admissions and other filing fees into the DOI Insurance Fund rather than the state General Fund. For FY 2006, \$737,554 was deposited into the state General Fund from these fees. For FY2008, FY2009, and FY2010, these fees will generate an estimated \$739,500 per year. Revenue to the state General Fund will be reduced by \$739,500 per year.

*Background Information--*The DOI is funded through both the state General Fund and the DOI Fund. For each year of the 2005-2007 biennium, the DOI received \$3.4 M from the state General Fund and \$2.3 M from the DOI fund.

Increased Fee for Internal Audit and Product Filing Fee: The bill increases the internal audit fee for domestic and foreign insurers and HMOs from \$350 to \$1,000. It increases the internal audit fee of other entities from \$100 to \$250. Currently, the fees generate about \$700,000 per year. With the fee increases, additional revenue generated will equal an estimated \$1 M. This projection is based on the number of admitted companies, or 1,751. Of this total, 1,625 will experience an increase of \$650 (\$1,000 - \$350), which will generate \$1 M. The remaining 126 insurers will pay an additional \$150 (\$250 - \$100), which will generate \$18,900. The total new revenue is estimated at a little over \$1 M.

This new revenue would be deposited in the DOI Insurance Fund. Under existing law, this fee is deposited into the Insurance Fund. This provision will not effect the state General Fund.

The bill also provides that each policy, rider, or endorsement filed with the state constitutes an individual filing for purposes of the \$35 product filing fee. It imposes a \$1,000 cap per filing per insurer for product filing fees. The bill provides for the deposit of fees into the DOI Insurance Fund.

Each year the DOI receives approximately 10,900 Property & Casualty filings, 15% of which would qualify for the aggregate limit of \$1,000. This provision would generate \$1.6 M. ($10,900 * 0.15 = 1,635 * \$1,000 = \$1,635,000$).

The remaining Property and Casualty filers would equal 9,265. If this subtotal were added to Life and Annuity filings, which equaled 3,020 per year, and added to Accident and Health filings, which equaled 2,214, the total number of additional filers would equal 14,499. Assuming that 50% of these smaller filers will file one additional form, revenue generated would equal \$253,732.

Total new revenue from the Product Filing Fee would equal \$1,888,732. This new revenue would be deposited in the DOI Insurance Fund. Under existing law, this fee is deposited into the DOI Insurance Fund. This provision will not effect the state General Fund.

(Revised) ***Insurance Education Scholarship Fund:*** The bill authorizes the DOI commissioner to issue certificates suitable for framing to insurance producers. The commissioner may impose and collect a reasonable fee for the certificate. Fees must be deposited into the Insurance Education Scholarship Fund. The amount of revenue that will be generated from fees is indeterminable.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: DOI; SSACI.

Local Agencies Affected:

Information Sources: DOI, Barb Lowman, Controller, DOI, 317-232-2405.

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